

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Fennville District Library	County Allegan
Fiscal Year End 9/30/06	Opinion Date 12/13/06	Date Audit Report Submitted to State 1/18/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

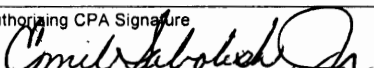
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Kiekover, Scholma & Shumaker, PC		Telephone Number 616-772-4615	
Street Address 205 East Main Street		City Zeeland	State MI
Zip 49464			
Authorizing CPA Signature 	Printed Name Emil Sabolish, Jr.	License Number 9304	

FENNVILLE DISTRICT LIBRARY
ALLEGAN COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2006

KIEKOVER, SCHOLMA & SHUMAKER, PC
Certified Public Accountants
Zeeland, Michigan

Fennville District Library
ANNUAL FINANCIAL REPORT
Year Ended September 30, 2006

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INDEPENDENT AUDITOR'S REPORT

December 13, 2006

Library Board
Fennville District Library
Fennville, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Fennville District Library as of and for the year ended September 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fennville District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Fennville District Library as of September 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages II through V and 10 through 11, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Kiekover, Scholma & Shumaker, PC

Fennville District Library

Management's Discussion and Analysis

As management of Fennville District Library, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with the Library's financial statements that follow this section.

Fennville District Library is organized under the laws of the State of Michigan and is governed by an eight-member board. The Library provides services to the surrounding areas. It receives support from the City of Fennville and the Townships of Clyde, Casco, Ganges, Manlius, and Lee.

Financial Highlights

- The Library's net assets were \$1,645,228 at September 30, 2006. Of this amount \$670,483 (*unrestricted net assets*) may be used to meet the Library's ongoing obligations to citizens and creditors. Its net assets decreased by \$11,870 for the year ended September 30, 2006.
- As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balance of \$815,195, an increase of \$4,929 in comparison with the prior year.
- At the close of the current fiscal year, unreserved fund balance of the general fund was \$670,483 or 254% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Fennville District Library's basic financial statements. The Library's basic financial statements are comprised of two components: the financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial statements. The financial statements are presented in a columnar format. The first three columns present the Library's two governmental funds - its general fund and special revenue building fund (*governmental funds* financial statements) and are prepared on the modified accrual basis of accounting. These fund financial statements present a short-term view and tell how resources were spent during the year as well as what remains for future spending. Such financial information may be helpful in evaluating the Library's near-term financing requirements.

The fourth column in the financial statements presents the adjustments necessary to reconcile the *governmental funds* financial statements to the *governmental activities* financial statements (*Statement of Net Assets* and *Statement of Activities*) presented in the fifth column.

These *governmental activities* financial statements are designed to provide the readers with a broad view of the Library's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Library's finances and whether the full cost of government services have been funded. The two governmental activities statements are as follows:

- The *statement of net assets* presents information on all of the Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.
- The *statement of activities* presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that result in cash flows in different fiscal periods.

The Library adopts an annual appropriated budget for its general and special revenue building funds. Budgetary comparison schedules have been provided for the general and building funds to demonstrate compliance with this budget.

The basic *governmental fund* financial statements and *governmental activities* financial statements can be found on pages 2-3 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 4-8 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* presenting budgetary comparisons for the Library's General Fund and Building Fund found on pages 10-11 of this report.

Financial Analysis of the Library as a Whole

The following table shows, in a condensed format, the net assets of the Fennville District Library as of September 30, 2006 and 2005.

TABLE 1 - Fennville District Library's Net Assets

	2006	2005
Cash and investments	\$ 811,050	\$ 804,525
Accounts receivable	7,836	9,874
Capital assets	830,033	846,832
Total assets	<u>1,648,919</u>	<u>1,661,231</u>
Current Liabilities	<u>3,691</u>	<u>4,133</u>
Net Assets		
Invested in capital assets	830,033	846,832
Restricted	144,712	145,046
Unrestricted	670,483	665,220
Total net assets	<u>\$ 1,645,228</u>	<u>\$ 1,657,098</u>

The following analysis highlights the changes in net assets for the years ended September 30, 2006 and 2005.

TABLE 2 - Changes in Fennville District Library's Net Assets

	2006	2005
Revenues:		
Penal fines	\$ 98,483	\$ 95,912
Property taxes	112,339	103,907
Contributions from state	10,501	13,781
Gifts	3,897	564,492
Interest	29,195	6,881
Other	<u>19,578</u>	<u>16,086</u>
Total Revenues	<u>273,993</u>	<u>801,059</u>
Expenses:		
Salaries	135,989	127,309
Payroll taxes	10,377	9,678
Books	21,726	13,820
Co-op expense	16,973	16,836
Repair and maintenance	8,092	6,358
Utilities	17,708	16,314
Other	42,466	39,757
Depreciation	<u>32,532</u>	<u>34,605</u>
Total Expenses	<u>285,863</u>	<u>264,677</u>
Change in Net Assets	<u>\$ (11,870)</u>	<u>\$ 536,382</u>

Financial Analysis of the Library's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the Library's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$815,195, an increase of \$4,929 from the prior year. Approximately 82% of this amount (\$670,483) constitutes *unreserved fund balance*, which is available for spending at the Library's discretion. The remainder of fund balance is *reserved* for building improvements.

The General Fund is the chief operating fund of the Library. At the end of the current fiscal year fund balance of the General Fund was \$670,483, all of which was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance (\$670,483) represents 254% of total General Fund expenditures.

The fund balance of the Library's General Fund increased by \$5,263 during the current fiscal year. Total revenue sources decreased by \$527,981 or 66%. Penal fines increased by \$2,571 or 2.7%. Property taxes increased by \$8,432 or 8.1%. Contributions from state decreased by \$3,280, or 2.4%. Gifts decreased by \$560,595, largely due to the one time gift of \$558,948 received in fiscal 2004-05. General Fund expenditures increased by \$33,525, or 14.5%

The Building Fund has a total fund balance of \$144,712, a decrease of \$334 during the year. Total revenues increased by \$915. Expenditures increased by \$2,613 from the prior year.

General Fund Budgetary Highlights

The general fund budget was not amended during the year. Overall, actual revenues were \$25,097 greater than budgeted, while total expenditures were \$1,762 over the final budget.

Next Year's Budget

The Library's budget for fiscal 2007 calls for a decrease in revenues of approximately 2.8% and an increase in expenses of approximately .1%.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, patrons and donors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director.

Basic Financial Statements

Fennville District Library
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
September 30, 2006

	General Fund	Building Fund	Total	Adjustments	Statement of Net Assets
ASSETS					
Current Assets:					
Cash and investments	\$ 666,338	\$ 144,712	\$ 811,050	\$ -	\$ 811,050
Accounts receivable	<u>7,836</u>	<u>-</u>	<u>7,836</u>	<u>-</u>	<u>7,836</u>
Total Current Assets	<u>674,174</u>	<u>144,712</u>	<u>818,886</u>	<u>-</u>	<u>818,886</u>
Noncurrent Assets:					
Capital assets	-	-	-	1,260,889 (1)	1,260,889
Less: accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(430,856) (1)</u>	<u>(430,856)</u>
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>830,033</u>	<u>830,033</u>
Total Assets	<u>\$ 674,174</u>	<u>\$ 144,712</u>	<u>\$ 818,886</u>	<u>\$ 830,033</u>	<u>\$ 1,648,919</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 731	\$ -	\$ 731	\$ -	\$ 731
Accrued wages	<u>2,960</u>	<u>-</u>	<u>2,960</u>	<u>-</u>	<u>2,960</u>
Total Current Liabilities	<u>3,691</u>	<u>-</u>	<u>3,691</u>	<u>-</u>	<u>3,691</u>
FUND BALANCE/NET ASSETS					
Fund balances:					
Unreserved	670,483	-	670,483	(670,483)	-
Reserved for building improvements	<u>-</u>	<u>144,712</u>	<u>144,712</u>	<u>(144,712)</u>	<u>-</u>
Total Fund Balances	<u>670,483</u>	<u>144,712</u>	<u>815,195</u>	<u>(815,195)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 674,174</u>	<u>\$ 144,712</u>	<u>\$ 818,886</u>		
Net assets:					
Invested in capital assets				830,033 (1)	830,033
Restricted for building improvements				144,712	144,712
Unrestricted				<u>670,483</u>	<u>670,483</u>
Total Net Assets				<u>\$ 1,645,228</u>	<u>\$ 1,645,228</u>

(1) Capital assets purchased or constructed by the entity are capitalized on the Statement of Net Assets and depreciated over their estimated useful lives.

Fennville District Library
STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
Year Ended September 30, 2006

	General Fund	Building Fund	Total	Adjustments	Statement of Activities
Revenues:					
Penal fines	\$ 98,483	\$ -	\$ 98,483	\$ -	\$ 98,483
Property taxes	112,339	-	112,339	-	112,339
Contributions from local units	3,500	-	3,500	-	3,500
Contributions from state	10,501	-	10,501	-	10,501
Gifts	3,897	-	3,897	-	3,897
Book and video fines	6,235	-	6,235	-	6,235
Copy and fax machine fees	3,938	-	3,938	-	3,938
Rental fees	115	-	115	-	115
Interest	24,799	4,396	29,195	-	29,195
Miscellaneous	5,790	-	5,790	-	5,790
Total Revenue	<u>269,597</u>	<u>4,396</u>	<u>273,993</u>	<u>-</u>	<u>273,993</u>
Expenditures:					
Salaries	135,989	-	135,989	-	135,989
Payroll taxes	10,377	-	10,377	-	10,377
Health insurance	515	-	515	-	515
Audio-visual	1,667	-	1,667	-	1,667
Books and periodicals	21,726	-	21,726	-	21,726
Library supplies	2,668	-	2,668	-	2,668
Technology charges	3,320	-	3,320	-	3,320
Gifts	1,631	-	1,631	-	1,631
Programs and activities	6,450	-	6,450	-	6,450
Publicity	1,887	-	1,887	-	1,887
South Haven non-resident cards	1,377	-	1,377	-	1,377
Co-op expense	16,973	-	16,973	-	16,973
Office supplies	5,119	-	5,119	-	5,119
Professional fees	4,354	-	4,354	-	4,354
Telephone	2,199	-	2,199	-	2,199
Repairs and maintenance	6,842	1,250	8,092	-	8,092
Utilities	17,708	-	17,708	-	17,708
Insurance	4,843	-	4,843	-	4,843
Miscellaneous	1,829	-	1,829	-	1,829
Capital outlay	16,860	3,480	20,340	(15,733) (1)	4,607
Depreciation	-	-	-	32,532 (1)	32,532
Total Expenditures	<u>264,334</u>	<u>4,730</u>	<u>269,064</u>	<u>16,799</u>	<u>285,863</u>
Excess of Revenues Over Expenditures/ Changes in Net Assets	5,263	(334)	4,929	(16,799)	(11,870)
Fund Balances/Net Assets, October 1	<u>665,220</u>	<u>145,046</u>	<u>810,266</u>	<u>846,832</u>	<u>1,657,098</u>
Fund Balance/Net Assets, September 30	<u>\$ 670,483</u>	<u>\$ 144,712</u>	<u>\$ 815,195</u>	<u>\$ 830,033</u>	<u>\$ 1,645,228</u>

(1) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is deducted from expenditure and the cost is added to "Capital assets" in the statement of net assets. These assets are then depreciated over their estimated useful lives, resulting in an expense on the Statement of Activities.

Fennville District Library
NOTES TO FINANCIAL STATEMENTS
Year Ended September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Fennville District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Fennville District Library:

A. Reporting Entity

Fennville District Library is organized under the laws of the State of Michigan and is governed by an eight-member board. The Library provides services to the surrounding areas. They receive support from the City of Fennville and the Townships of Clyde, Casco, Ganges, Manlius, and Lee.

Blended Component Unit. The Library has no blended component units.

Discretely Presented Component Unit. The Library has no discretely presented component units.

B. Government-Wide and Fund Financial Statements

Separate columns are included in the financial statements for the government-wide financial statements (i.e., the statement of net assets and the statement of activities) and the fund financial statements, which present the two governmental funds of the Library.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. Governmental funds use the current financial resources measurement focus and the government wide statement uses the economic resources measurement focus.

Accrual Method

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

The *Building Fund* accounts for revenue sources that are legally restricted to expenditures for building improvements and maintenance.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments.

The Library's investment policies are governed by state statutes and formal board policy.

Michigan statutes authorize investments in bonds and other direct obligations of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, U.S. government or Federal agency obligation repurchase agreements, bankers' acceptance of U.S. banks, and certain mutual funds. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Library's deposits are in accordance with statutory authority.

Investments are recorded at fair value.

2. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Land Improvements	20 years
Buildings	10 - 40 years
Furniture and equipment	5 - 10 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$500.

3. Compensated Absences.

The liability for compensated absences is not material and no accrual has been reflected in these financial statements.

E. Property Taxes

Property taxes levied by the Library are collected by various municipalities and periodically remitted to the Library. The taxes are levied as of December 1 on the taxable valuation of the property as of the preceding December 31. The actual due date is February 14 after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. The 2005 ad valorem tax is recognized as revenue during the 2005-06 fiscal year.

The 2005 taxable value totaled \$322,770,737 on which taxed levied consisted of .3500 mills for Library operating purposes. This amount is accounted for in the General Fund.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

Before September 30, the proposed budget is presented to the Board for review. The final budget must be prepared and adopted no later than September 30.

The appropriated budget is prepared by fund and object. Budgetary control over expenditures is exercised by the Library Board. Appropriated budgets are amended by a majority vote of the Library Board. The Library board made several supplemental budgetary appropriations throughout the year.

B. Excess of Expenditures Over Appropriations

For the year ended September 30, 2006, expenditures exceeded appropriations at the object level as stated in the accompanying Budgetary Comparison Schedule.

NOTE 3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The governing body has designated several banks for the deposit of Library funds. The investment policy adopted by the Library in accordance with Public Act 196 of 1997 has authorized investment in all of the State statutory authority as listed above.

The Library's deposits and investments are in accordance with statutory authority.

The breakdown between deposits and investments is as follows:

Carrying amount of deposits	\$ 800,604
Carrying amount of investments	<u>10,446</u>
Total	<u>\$ 811,050</u>

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. The Library does not have a deposit policy for custodial credit risk. At year end the bank balance of the Library's deposits was \$810,975 of which \$341,543 was covered by federal depository insurance and \$469,432 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

Interest rate risk. Except as limited by state law as listed in the above list of authorized investments the Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Library has no investment policy that limits its investment choices beyond those required by state law. At year end the Library had \$10,446 in permissible money market funds that are not separately rated.

B. Capital Assets

Governmental capital asset activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Additions	Disposals and adjustments	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital Assets Being Depreciated				
Land improvements	25,215	-	-	25,215
Building and improvements	1,118,041	-	-	1,118,041
Furniture and equipment	89,545	15,733	(7,645)	97,633
Subtotal	1,232,801	15,733	(7,645)	1,240,889
Less Accumulated Depreciation for				
Land improvements	(13,553)	(1,261)	-	(14,814)
Building and improvements	(313,885)	(28,532)	-	(342,417)
Furniture and equipment	(78,531)	(2,739)	7,645	(73,625)
Subtotal	(405,969)	(32,532)	7,645	(430,856)
Net Capital Assets Being Depreciated	826,832	(16,799)	-	810,033
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ 846,832	\$ (16,799)	\$ -	\$ 830,033

Depreciation for the fiscal year ended September 30, 2006 amounted to \$32,532.

NOTE 4. OTHER INFORMATION

A. Lee Township Branch

During the 1992 fiscal year, Fennville District Library opened a branch in Lee Township known as the "Lee Township Branch of Fennville District Library." All of the branch activity is controlled by the Board of Fennville District Library and all of the activity of the branch is included in the financial statements of Fennville District Library.

B. Risk Management

The Library is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library maintains adequate commercial insurance coverage for these various exposures to risk. Settled claims for the commercial insurance have never exceeded the amount of coverage. There was no reduction in coverage obtained through insurance during the past year.

C. Retirement Plan

The Library participates in a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE IRA) account covering all employees meeting the eligibility requirements. Employees may make contributions to the extent that they do not exceed the annual limit described in the plan. The Library does not make any contributions to the plan.

Required Supplementary Information

Fennville District Library
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended September 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Local support	\$ 232,500	\$ 232,500	\$ 253,235	\$ 20,735
Other support	12,000	12,000	16,362	4,362
Total Revenue	<u>244,500</u>	<u>244,500</u>	<u>269,597</u>	<u>25,097</u>
Expenditures:				
South Haven non-resident cards	4,000	4,000	1,377	2,623
Collection expenses	36,430	36,430	39,732	(3,302)
General operations	57,550	57,550	57,064	486
Insurance	4,600	4,600	4,843	(243)
Library activities	5,300	5,300	6,450	(1,150)
Printing	300	300	88	212
Salaries	139,340	139,340	135,989	3,351
Payroll taxes	10,660	10,660	10,377	283
Other expenses	4,392	4,392	8,414	(4,022)
Total Expenditures	<u>262,572</u>	<u>262,572</u>	<u>264,334</u>	<u>(1,762)</u>
Excess of Revenues Over Expenditures	(18,072)	(18,072)	5,263	23,335
Fund Balance, October 1	<u>665,220</u>	<u>665,220</u>	<u>665,220</u>	<u>-</u>
Fund Balance, September 30	<u>\$ 647,148</u>	<u>\$ 647,148</u>	<u>\$ 670,483</u>	<u>\$ 23,335</u>

Fennville District Library
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - BUILDING FUND
Year Ended September 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Interest	\$ 3,000	\$ 3,000	\$ 4,396	\$ 1,396
Expenditures:				
Repairs and maintenance	7,000	7,000	1,250	5,750
Capital outlay	-	-	3,480	(3,480)
Total Expenditures	7,000	7,000	4,730	2,270
Excess of Revenues Over Expenditures	(4,000)	(4,000)	(334)	3,666
Fund Balance, October 1	145,046	145,046	145,046	-
Fund Balance, September 30	\$ 141,046	\$ 141,046	\$ 144,712	\$ 3,666



January 15, 2007

Library Board
Fennville District Library
Fennville, Michigan

In planning and performing our audit of the financial statements of Fennville District Library for the year ended September 30, 2006, we considered the Library's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted the following matters involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgement, could adversely affect the Fennville District Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

We believe the following are reportable conditions as defined above.

Budgets

1. There were several noted instances of expenditures exceeding the appropriated budget during fiscal year 2005-06. As required by the Uniform Budgeting and Accounting Act (PA 2 of 1968), we recommend the Library appropriately amend the budget prior to expenditures being incurred.
2. While the Library's annual budget is approved by the Board as reflected in the minutes, we recommend the Library pass an annual appropriations act (budget resolution) as outlined in PA 2 of 1968 and the Michigan Department of Treasury Uniform Budgeting Manual.
3. In addition to the annual budget, we recommend that all budget amendments be approved by the Board by use of a budget amendment resolution that details the specific budget amendment amounts.

Segregation of Duties

Given the nature and size of management and accounting staff of your organization, segregation of duties may not be possible or practical. We must note however, that effective internal controls require the appropriate segregation of duties. The basic premise is that no single employee should have access to both physical assets and the related accounting records, or to all phases of a transaction.

Currently, the Library Director handles all incoming receipts, makes bank deposits, reconciles cash, writes checks, and records all accounting activity. While the requirement that one of three board members sign each check is a mitigating control, this situation results in the possibility that intentional or unintentional errors could be made and not detected.

We thank Todd Reed for the courtesy and cooperation extended us during the audit.

Kiekover, Scholma & Shumaker, PC